

METALS IQ

Industry Insights for Q2 2018

The current metals M&A environment has benefitted from strong economic tailwinds as original equipment manufacturers around the world demand more raw material inputs to satisfy increased growth. We expect M&A activity to remain at a robust pace through 2018 driven by a healthy economy, lower corporate taxes, strong corporate balance sheets with ample levels of liquidity and access to capital available through both debt and equity markets. Strategic buyers continued to account for the bulk of deal activity in the metals sector during the first half of 2018. Given that higher interest rates will increasingly make debt financing more expensive for financial sponsors, we expect that strategic buyers, which can access existing cash balances and are less inclined to use debt financing, will continue to maintain a competitive edge when competing for deal opportunities through the remainder of the year.

As overcapacity remains a concern in this sector, particularly for steel producers, industry participants continue to pursue product extensions which will allow them to move up the value chain. The need for lightweight, corrosion-resistant solutions for use in

the automotive, energy, and construction sectors is creating ample opportunities for producers looking to invest in innovative technologies. As a result, we expect companies with strong technological underpinnings or value-added product offerings to become increasingly attractive as acquisition candidates.

The volatile policy environment and its impact on M&A activity in the metals sector is still to play out. President Trump's announcement that the U.S. will withdraw from the Iran Nuclear Deal primarily impacts the energy sector; however, higher oil prices may lead to broad raw material cost increases, and as a result, have the potential to dampen the global economic momentum presently benefitting the metals market. Conversely, industry players may look to rebuild their supply chains within the U.S. in the event the administration issues a NAFTA termination letter. Tariffs on steel and aluminum are certainly signs of increasing political tension; and although the ultimate economic impact remains unknown, foreign companies looking to compete in U.S. markets may look for domestic acquisition targets in order to lessen the negative consequences inherent in a higher tariff environment.

Recent Deal Activity Q1/Q2 2018

January 15, 2018 - Grand Haven, Michigan-based **Shape Corp.** announced an agreement to acquire Trenton, Ohio-based **Magnode Corporation**. Magnode manufactures and supplies aluminum extrusions to customers in automotive, building and construction, consumer electronics, defense, and other industries worldwide. Shape management noted the acquisition expands Shape's lightweight product and process portfolio to become a fully integrated aluminum solution. The financial terms of the transaction were not disclosed.

February 1, 2018 - Fort Worth, Texas-based **AZZ Inc.** (NYSE:AZZ) acquired Rockford, Illinois-based **Rogers Brothers Galvanizing Co.** Rogers provides galvanizing services for fasteners, washers, forging, and stamping of various sizes and configurations, castings, wire forms, nails and staples, and small weldments. AZZ management cited Rogers' Midwest customers and experience in galvanizing centrifuge operations as key drivers for the acquisition. The financial terms of the transaction were not disclosed.

February 1, 2018 - Rochester, Minnesota-based **Domaille Engineering LLC**, a portfolio company of **Onward Capital** and **Thompson Street Capital Partners**, acquired Wright City, Missouri-based **Tech Manufacturing LLC**. Tech Manufacturing is a leading provider of complex five-axis structural components and sub-assemblies for the aerospace and defense markets. Domaille management cited Tech's combination of talent and resources as the key drivers for the acquisition. The financial terms of the transaction were not disclosed.

February 7, 2018 - Oklahoma City, Oklahoma-based **W&W Steel Company** acquired San Angelo, Texas-based **Hirschfeld Holdings LP**. Hirschfeld is an integrated fabricator of steel bridges and structural steel for stadiums, airports, and other large commercial and industrial projects. W & W management cited greater scale within its existing markets as a key driver for the acquisition. The financial terms of the transaction were not disclosed.

March 19, 2018 - Coeur d'Alene, Idaho-based **Hecla Mining Company** (NYSE:HL) announced an agreement to acquire Reno, Nevada-based **Klondex Mines Ltd.** (TSX:KDX). Klondex explores, develops, and produces mineral properties in the United States and Canada. Hecla management noted that Klondex's operating mines are some of the highest-grade gold mines in the world. The announced transaction value was \$484 million, which implies a revenue multiple of 1.9x.

March 22, 2018 - Edgewood, New York-based **CPI Aerostructures Inc.** (AMEX:CVU) announced an agreement to acquire Hauppauge, New York-based **Welding Metallurgy Inc.** Welding manufactures structural and welded assemblies, tubes and ducts, aerial refueling systems, oil tanks, and ground support equipment. CPI management cited Welding's aerostructures and aerosystems businesses and large defense portfolio as key drivers for the acquisition. The announced transaction value was \$10 million.

March 29, 2018 - India-based **JSW Steel Limited** (BSE:500228)

announced an agreement to acquire Mingo Junction, Ohio-based **Acero Junction Inc.** Acero produces hot rolled coils for consumer durables. JSW management cited potential U.S steel tariffs and an expanded footprint in the U.S. as key drivers for the acquisition. The announced transaction value was \$180 million.

April 4, 2018 - Chicago, Illinois-based **Ryerson Holding Corporation** (NYSE:RYI) acquired Lavonia, Georgia-based **Fanello Industries Inc.** Fanello provides assembly, blanking, precision tooling and general machining, and stamping services. Ryerson management noted Fanello's supply chain and that the acquisition increases Ryerson's breadth of value-added services as key drivers for the acquisition. The financial terms of the transaction were not disclosed.

May 14, 2018 - Fort Wayne, Indiana-based **Steel Dynamics Inc.** (NasdaqGS:STLD) announced an agreement to acquire Terre Haute, Indiana-based **Companhia Siderurgica Nacional LLC**. Companhia manufactures light gauge coiled steel sheet products. Steel Dynamics management noted that the additional exposure to lighter-gauge and greater width flat roll steel offerings will broaden Steel Dynamic's value-added product portfolio. The announced transaction value was \$400 million.

May 17, 2018 - Oak Brook, Illinois-based **Union Partners I LLC** acquired Livonia, Michigan-based **Contractors Steel Company Inc.** Contractors Steel Company, Inc. operates a steel service center. Union Partners management cited Contractors' inventory management, full range of processing capabilities, and geographic reach as key drivers for the acquisition. The financial terms of the transaction were not disclosed.

May 29, 2018 - Bristol, Tennessee-based **Bristol Metals LLC** announced an agreement to acquire the galvanized tube operations of Italy-based **Marcegaglia**. Bristol Metals will acquire Marcegaglia's galvanized tube operations in Munhall, Pennsylvania. Bristol management cited under-utilized high frequency mills and associated equipment and low manufacturing costs as rationale for the acquisition. The announced transaction value was \$10 million.

June 4, 2018 - Austria-based **Welsper Profile GmbH** acquired Valley City, Ohio-based **Superior Roll Forming Company Inc.** Superior manufactures hollow welded shapes, roll formed profiles, integrated assemblies, and laser welded composite section products. Welsper management noted the acquisition expands Welsper's product portfolio and diversification into the North American market. The financial terms of the transaction were not disclosed.

June 12, 2018 - Private equity group **TGP Investments, LLC** acquired Joplin, Missouri-based **Mid-America Precision Products LLC**. Mid-America provides custom machining of precision parts, sheet metal, finishing, and contract assembly. TGP management cited the depth of Mid-America's current customer relationships and beginning-to-end range of manufacturing capabilities as key drivers for the transaction. The financial terms of the transaction were not disclosed.

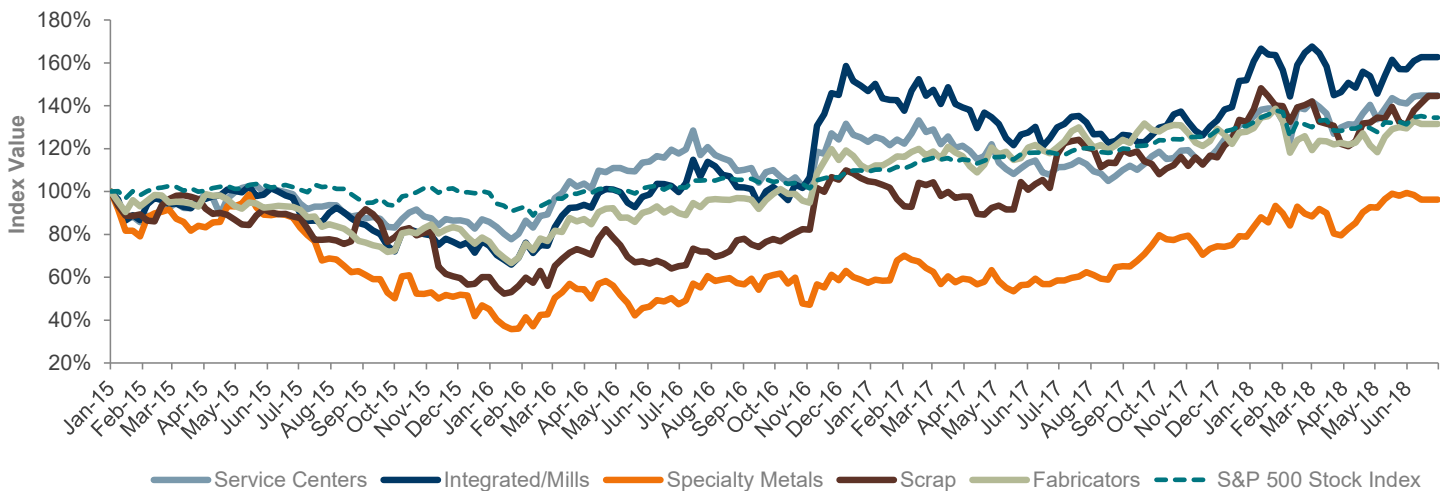
Metals Company Trading Multiples

Company	Exchange/ Ticker	06/30/18 Stock Price	Qtrly Price Change	Market Cap.	Total EV ⁽¹⁾	LTM		Gross Margin	EBITDA Margin	Net Debt/ EBITDA	Enterprise Value/LTM	
						Revenue	EBITDA				Revenue	EBITDA
Service Centers												
Olympic Steel, Inc.	NasdaqGS:ZEUS	23.16	8%	252	498	1,371	42	20%	3%	5.8x	0.4x	11.7x
Reliance Steel & Aluminum Co.	NYSE:RS	95.41	11%	6,855	8,791	10,059	940	29%	9%	2.0x	0.9x	9.4x
Median ⁽²⁾								25%	6%	3.9x	0.6x	10.5x
Mean								25%	6%	3.9x	0.6x	10.5x
Integrated/Mills												
AK Steel Holding Corporation	NYSE:AKS	\$ 4.80	(15%)	\$ 1,504	\$ 3,914	\$ 6,206	\$ 461	11%	7%	4.5x	0.6x	8.5x
Commercial Metals Company	NYSE:CMC	23.92	12%	2,796	3,420	4,985	264	11%	5%	2.4x	0.7x	13.0x
Nucor Corporation	NYSE:NUE	68.01	7%	21,239	24,643	21,006	2,601	12%	12%	1.2x	1.2x	9.5x
Steel Dynamics, Inc.	NasdaqGS:STLD	49.11	14%	11,603	12,893	9,774	1,356	16%	14%	1.0x	1.3x	9.5x
United States Steel Corporation	NYSE:X	37.82	7%	6,609	8,090	12,674	1,198	12%	9%	1.2x	0.6x	6.8x
Median ⁽²⁾								12%	9%	1.2x	0.7x	9.5x
Mean								12%	10%	2.0x	0.9x	10.1x
Specialty Metals												
Allegheny Technologies Incorporated	NYSE:ATI	\$ 28.65	19%	\$ 3,578	\$ 5,185	\$ 3,638	\$ 375	13%	10%	4.0x	1.4x	13.8x
Carpenter Technology Corporation	NYSE:CRS	57.07	12%	2,665	3,222	2,047	287	18%	14%	1.9x	1.6x	11.2x
Haynes International, Inc.	NasdaqGS:HAYN	39.72	24%	496	486	399	4	7%	1%	NM	1.2x	135.2x
Universal Stainless & Alloy Products, Inc.	NasdaqGS:USAP	24.10	13%	208	311	218	25	13%	12%	4.1x	1.4x	12.3x
Median ⁽²⁾								13%	11%	3.0x	1.4x	13.1x
Mean								13%	9%	3.3x	1.4x	43.1x
Scrap												
Industrial Services of America, Inc.	NasdaqCM:IDSA	\$ 2.00	22%	\$ 16	\$ 24	\$ 57	\$ 2	6%	4%	3.4x	0.4x	NM
Schnitzer Steel Industries, Inc.	NasdaqGS:SCHN	32.90	(2%)	858	1,058	2,014	146	15%	7%	1.3x	0.5x	7.2x
Sims Metal Management Limited	ASX:SGM	17.28	10%	3,502	3,097	5,682	271	13%	5%	NM	0.5x	11.4x
Median ⁽²⁾								13%	5%	2.4x	0.5x	9.3x
Mean								11%	5%	2.4x	0.5x	9.3x
Fabricators												
RBC Bearings Incorporated	NasdaqGS:ROLL	\$ 130.91	4%	\$ 3,143	\$ 3,262	\$ 675	\$ 164	38%	24%	0.7x	4.8x	19.9x
Shiloh Industries, Inc.	NasdaqGS:SHLO	9.11	11%	213	453	1,066	71	11%	7%	3.4x	0.4x	6.4x
The Timken Company	NYSE:TKR	48.50	(1%)	3,763	4,745	3,183	481	28%	15%	2.0x	1.5x	9.9x
Worthington Industries, Inc.	NYSE:WOR	48.24	9%	2,906	3,664	3,407	310	16%	9%	2.0x	1.1x	11.8x
Median ⁽²⁾								22%	12%	2.0x	1.3x	10.8x
Mean								23%	14%	2.0x	2.0x	12.0x

(1) EV ("Enterprise Value") is defined as market capitalization plus net debt, preferred equity and minority interest.
 (2) Median and mean values exclude all non-meaningful values.

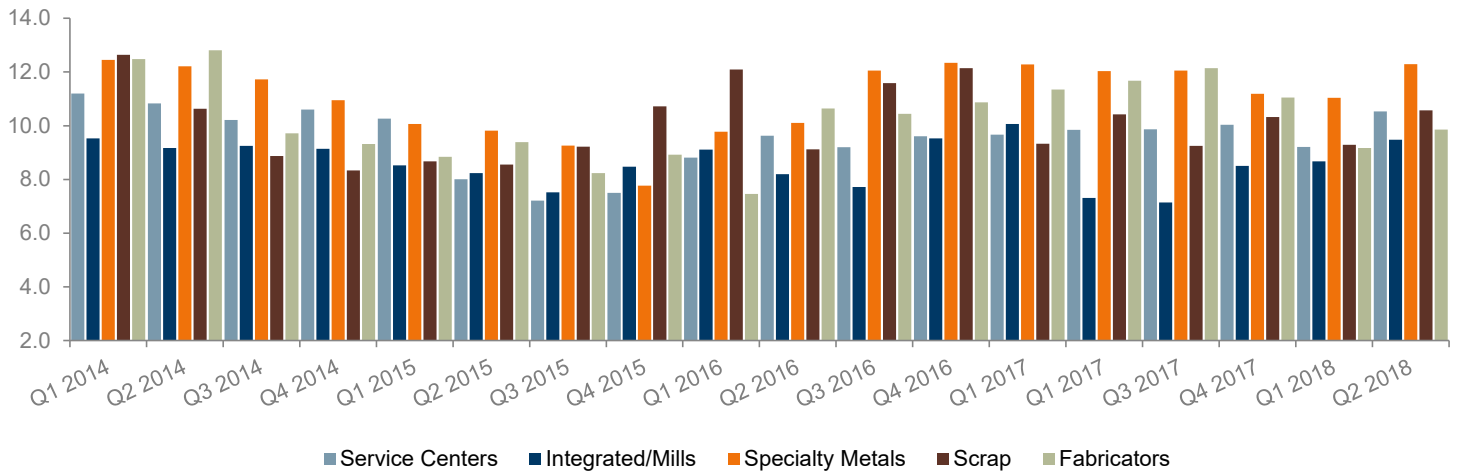
Source: Capital IQ (as of June 30, 2018)

Amherst Partners Metals Indices



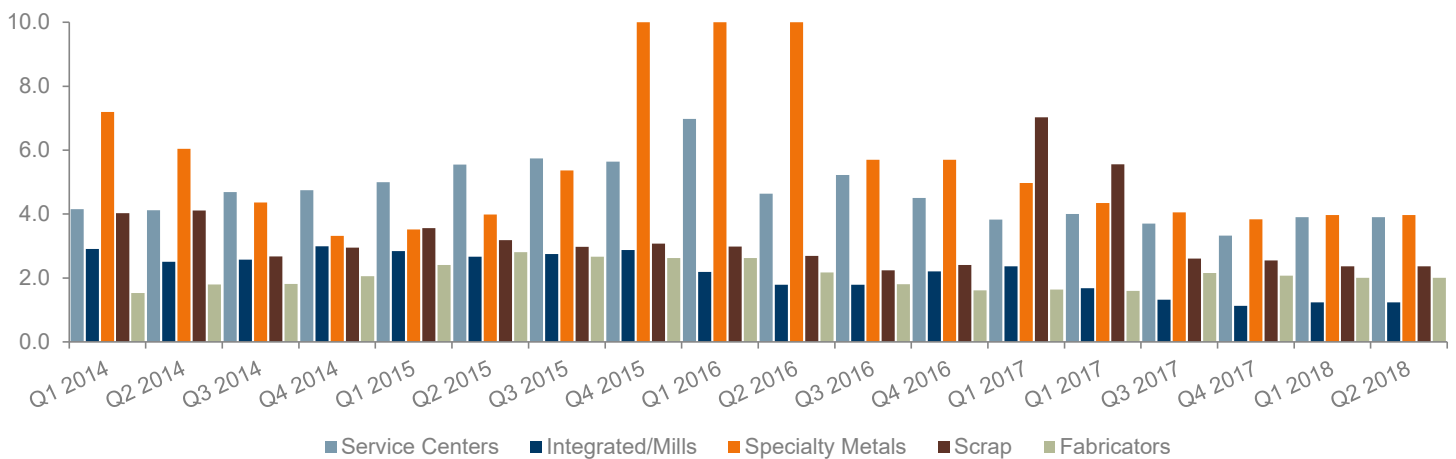
Source: Capital IQ

Metals Indices - Median Enterprise Value/LTM EBITDA



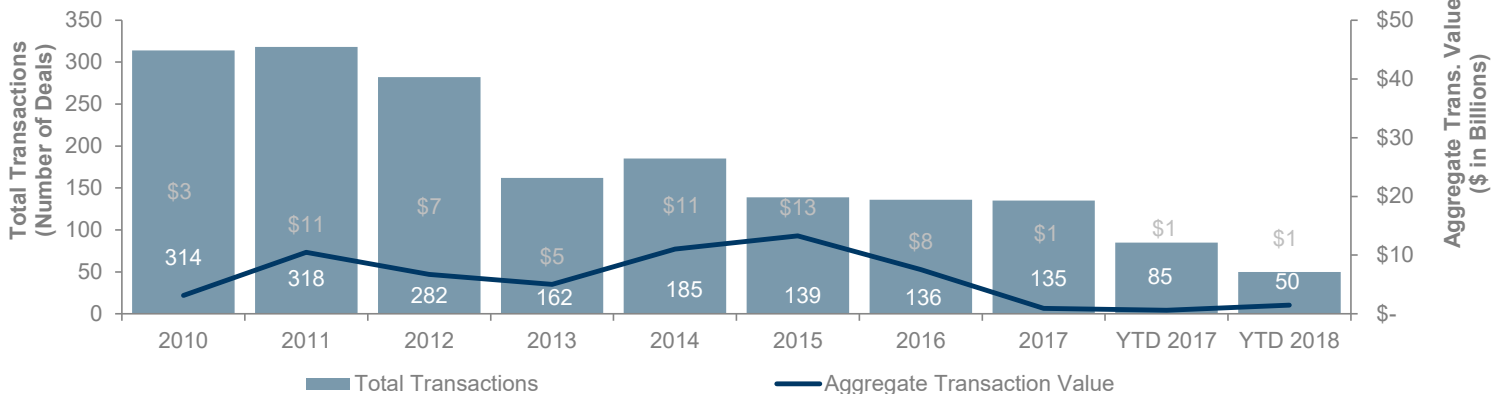
Source: Capital IQ

Metals Indices - Median Net Debt/LTM EBITDA



Source: Capital IQ

U. S. Metals M&A Activity



Search Criteria:
 (1) Building Products, Construction Materials, and Prefabricated Buildings and Components (Primary).
 (2) Acquisition of Majority Stake
 (3) Transactions Announced Date (Including Bids and Letters of Intent)

Source: Capital IQ

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- Capital Raising
- Restructuring Advisory
- Management Consulting

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